# Notes to Financial Statements

*31 March 2003*

## 1. CORPORATE INFORMATION

The head office and principal place of business of Wang On Group Limited is located at 5th Floor., No. 9 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- management and sub-licensing of Chinese wet markets, shopping centres and car parks
- manufacture and sale of Chinese medicine, herbs, cough syrup and other medicinal products
- provision of project management and agency services
- property investment

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on pages 24 and 25 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group's reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(Continued)*

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes are included in the accounting policies for "Cash and cash equivalents" and "Foreign currencies" in note 3 and in note 34(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain investments, as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Deferred gain represents the unrealised profit resulting from downstream transactions with an associate eliminated to the extent of the Group's interest in that associate.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of not more than 20 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Goodwill** *(Continued)*

SSAP 30 "Business combinations" was adopted by the Group as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Negative goodwill** *(Continued)*

SSAP 30 "Business combinations" was adopted by the Group as at 1 April 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 April 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

**Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

# Notes to Financial Statements

*31 March 2003*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Leasehold land | Over the lease terms |
| Buildings | 2% |
| Leasehold improvements | 10% — 20% |
| Machineries | 15% — 20% |
| Furniture, fixtures and office equipment | 15% — 20% |
| Motor vehicles | 20% — 30% |
| Computer equipment | 15% — 30% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

# Notes to Financial Statements

*31 March 2003*

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investment properties** *(Continued)*

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Intangible assets**

Intangible assets represent expenses incurred for the application and registration of trademarks and patents. Trademarks and patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

**Provisions for onerous contracts**

Onerous contracts represent lease contracts for certain Hong Kong properties and projects where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. Provisions for onerous contracts are recognised based on the difference between the rental payments receivable by the Group and those unavoidable rental payments payable by the Group under the contracts, together with any compensation or penalties arising from the failure to fulfil the contracts, discounted to their present value as appropriate.

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments**

Debt securities which are intended to be held to maturity are accounted for as held-to-maturity securities, while other securities are accounted for as investment securities or other investments, as explained below.

The profit or loss on disposal of an investment is credited or charged to the profit and loss account in the period in which the disposal occurs, and is calculated as the difference between the net sales proceeds and the carrying amount of the investment.

Provisions against the carrying amounts of investments are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

*Held-to-maturity securities*

Investments in dated debt securities which are intended to be held to maturity are stated at cost, adjusted for the amortisation of premiums or discounts arising on acquisitions, less any provisions for impairment in values.

The carrying amounts of held-to-maturity securities are reviewed as at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised as an expense in the profit and loss account in the period in which they arise.

*Investment securities*

Investments in dated debt securities, equity securities and unit trusts, intended to be held for a continuing strategic or identified long term purpose, are stated at cost less any provisions for impairment in values.

When a decline in the fair value of an investment security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amounts of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises.

*Other investments*

Investments in equity securities which are not intended to be held for an identified long term purpose are stated in the balance sheet at fair values. Fair values are determined on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account in the period in which they arise.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the provision of project management and agency services, when the services are rendered;

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition** *(Continued)*

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(c) from the sale of properties, at the time when the sale agreement becomes unconditional;

(d) franchise fee income, on a time proportion basis over the franchise period;

(e) rental and sub-licensing fee income, on an accrual basis; and

(f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**Employee benefits**

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

# Notes to Financial Statements

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## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits** *(Continued)*

*Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

*Share option schemes*

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Foreign currencies** *(Continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The adoptions of the revised SSAPs 11 and 15 have had no material effect on the financial statements.

**Properties held for re-sale**

Properties held for re-sale are stated at the lower of their carrying values and net realisable values, which are determined by the directors by reference to prevailing market prices.

**Deferred income**

Deferred income represents the initial franchise fee received, which is recognised as income on a time proportion basis over the franchise period.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the Chinese wet markets segment engages in the management and sub-licensing of Chinese wet markets;

# Notes to Financial Statements

*31 March 2003*

## 4. SEGMENT INFORMATION *(Continued)*

(b) the shopping centres and car parks segment engages in the management and sub-licensing of shopping centres and car parks;

(c) the pharmaceutical segment manufactures and sells Chinese medicine, herbs, cough syrup and other medicinal products;

(d) the property investment segment invests in industrial and commercial premises and residential units for rental income; and

(e) the corporate and others segment comprises the Group's management service business and sales of porks. This segment also includes corporate income and expense items.

No geographical segment information is presented as over 90% of the Group's turnover was derived from customers in Hong Kong during the year.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

**Business segments**

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

| Group | Chinese wet markets | | Shopping centres and car parks | | Pharmaceutical | | Property investment | | Corporate and others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | | | | | | | (Restated) | | (Restated) | | (Restated) | | |
| Segment revenue: | | | | | | | | | | | | | | |
| Sales to external customers | **145,981** | 152,770 | **77,349** | 85,939 | **27,167** | 70,727 | **4,515** | 2,071 | **37,144** | 8,540 | **–** | – | **292,156** | 320,047 |
| Intersegment sales | **3,921** | 767 | **873** | 994 | **–** | 1,609 | **–** | – | **–** | – | **(4,794)** | (3,370) | **–** | – |
| Other revenue | **919** | 995 | **3,248** | 2,713 | **333** | 1,052 | **123** | 40 | **99,841** | 10,368 | **–** | – | **104,464** | 15,168 |
| Total | **150,821** | 154,532 | **81,470** | 89,646 | **27,500** | 73,388 | **4,638** | 2,111 | **136,985** | 18,908 | **(4,794)** | (3,370) | **396,620** | 335,215 |
| Segment results | **7,323** | 13,676 | **3,814** | 2,194 | **6,475** | 17,044 | **(4,265)** | 1,318 | **67,927** | 3,154 | **892** | (846) | **82,166** | 36,540 |
| Unallocated expenses | | | | | | | | | | | | | **(10,482)** | (5,505) |
| Interest income | | | | | | | | | | | | | **10,872** | 7,721 |

# Notes to Financial Statements

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## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

| Group | Chinese wet markets 2003 HK$'000 | Chinese wet markets 2002 HK$'000 | Shopping centres and car parks 2003 HK$'000 | Shopping centres and car parks 2002 HK$'000 | Pharmaceutical 2003 HK$'000 | Pharmaceutical 2002 HK$'000 | Property investment 2003 HK$'000 | Property investment 2002 HK$'000 (Restated) | Corporate and others 2003 HK$'000 | Corporate and others 2002 HK$'000 (Restated) | Eliminations 2003 HK$'000 | Eliminations 2002 HK$'000 (Restated) | Consolidated 2003 HK$'000 | Consolidated 2002 HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Profit from operating activities | | | | | | | | | | | | | **82,556** | 38,756 |
| Finance costs | | | | | | | | | | | | | **(2,552)** | (3,482) |
| Share of profits and losses of associates (including amortisation of goodwill) | | | | | | | | | | | | | **(27,863)** | (1,151) |
| Provision for impairment of goodwill of an associate | | | | | | | | | | | | | **(7,000)** | — |
| Profit before tax | | | | | | | | | | | | | **45,141** | 34,123 |
| Tax | | | | | | | | | | | | | **(3,207)** | (3,634) |
| Profit before minority interests | | | | | | | | | | | | | **41,934** | 30,489 |
| Minority interests | | | | | | | | | | | | | **(641)** | (2,789) |
| Net profit from ordinary activities attributable to shareholders | | | | | | | | | | | | | **41,293** | 27,700 |

# Notes to Financial Statements

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## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

| Group | Chinese wet markets | | Shopping centres and car parks | | Pharmaceutical | | Property investment | | Corporate and others | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | | | | | | | | (Restated) | | (Restated) | | (Restated) | | |
| Segment assets | **59,323** | 85,602 | **34,113** | 37,551 | **7,918** | 52,628 | **166,870** | 23,898 | **550,833** | 371,481 | **(227,215)** | (81,801) | **591,842** | 489,359 |
| Interests in associates | **–** | – | **–** | 3 | **–** | 72,416 | **–** | – | **187,454** | 84,707 | **–** | – | **187,454** | 157,126 |
| Total assets | **59,323** | 85,602 | **34,113** | 37,554 | **7,918** | 125,044 | **166,870** | 23,898 | **738,287** | 456,188 | **(227,215)** | (81,801) | **779,296** | 646,485 |
| Segment liabilities | **(57,747)** | (78,072) | **(52,924)** | (58,611) | **(5,994)** | (11,302) | **(160,778)** | (31,993) | **(28,144)** | (18,900) | **227,215** | 80,956 | **(78,372)** | (117,922) |
| Unallocated liabilities | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **–** | – | **(80,104)** | (49,995) |
| Total liabilities | **(57,747)** | (78,072) | **(52,924)** | (58,611) | **(5,994)** | (11,302) | **(160,778)** | (31,993) | **(28,144)** | (18,900) | **227,215** | 80,956 | **(158,476)** | (167,917) |
| Other segment information: | | | | | | | | | | | | | | |
| Depreciation | **9,466** | 8,412 | **3,956** | 4,461 | **572** | 1,865 | **–** | – | **1,006** | 1,075 | **–** | – | **15,000** | 15,813 |
| Amortisation: | | | | | | | | | | | | | | |
| Goodwill | **–** | – | **–** | – | **592** | 1,517 | **–** | – | **16,809** | 2,990 | **–** | – | **17,401** | 4,507 |
| Intangible assets | **–** | – | **–** | – | **5** | 2 | **–** | – | **–** | – | **–** | – | **5** | 2 |
| Other non-cash expenses | **50** | – | **5** | – | **–** | – | **6,198** | – | **17,783** | 2,201 | **–** | – | **24,036** | 2,201 |
| Capital expenditures | **4,082** | 10,596 | **64** | 330 | **–** | 3,547 | **148,165** | – | **957** | 1,679 | **–** | – | **153,268** | 16,152 |

## 5. TURNOVER, REVENUE AND GAINS

Turnover represents management and sub-licensing fee income received and receivable; the invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; the gross rental income received and receivable from investment properties and proceeds from the disposal of properties during the year.

An analysis of turnover, other revenue and gains is as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| TURNOVER | | |
| Sub-licensing fee income | **216,965** | 232,859 |
| Management income | **4,160** | 5,946 |
| Sale of goods | **59,053** | 75,620 |
| Rendering of services | **7,463** | 4,030 |
| Gross rental income | **2,835** | 1,592 |
| Sale of property held for re-sale | **1,680** | — |
| | **292,156** | 320,047 |
| OTHER REVENUE | | |
| Interest income | **9,007** | 6,340 |
| Interest income from investments | **1,865** | 1,381 |
| Franchise income | **35** | 323 |
| Others | **8,294** | 6,215 |
| | **19,201** | 14,259 |
| GAINS | | |
| Gain on disposal of investments, net | **200** | 8,546 |
| Exchange gains, net | **4,070** | — |
| Recognition of deferred gain on disposal of subsidiaries | **944** | — |
| Net holding gain on investments | **—** | 84 |
| | **5,214** | 8,630 |
| | **24,415** | 22,889 |

## 6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | | Group | |
|---|---|---|---|
| | | **2003** | 2002 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Amortisation of trademarks and patents* | *14* | **5** | 2 |
| Amortisation of goodwill** | *15* | **947** | 25 |
| Auditors' remuneration | | **768** | 900 |
| Cost of inventories sold | | **21,924** | 24,741 |
| Cost of services provided | | **200,093** | 195,094 |
| Depreciation | *13* | **15,000** | 15,813 |
| Exchange losses, net | | **—** | 955 |
| Deficit on revaluation of investment properties | *13* | **6,210** | — |
| Loss on disposal of fixed assets | | **—** | 614 |
| Loss on fixed assets written off | | **1,061** | — |
| Net holding loss on investments | | **570** | — |
| Minimum lease payments under operating leases for land and buildings | | **141,953** | 138,325 |
| Provision for impairment of investments | | **637** | — |
| Provision/(write-back of provision) for and write-off of bad and doubtful debts | | **5,158** | (903) |
| Staff costs (including directors' remuneration — note 8): | | | |
| Wages and salaries | | **58,030** | 56,581 |
| Pension scheme contributions | | **2,030** | 1,873 |
| | | **60,060** | 58,454 |
| Amount released for onerous contracts | *27* | **(6,878)** | (5,689) |
| Gain on disposal of properties held for re-sale | | **(493)** | (6) |
| Net rental income | | **(2,794)** | (1,592) |

* The amortisation of trademarks and patents for the year is included in "Selling and distribution costs" on the face of the consolidated profit and loss account.

** The amortisation of goodwill is included in "Other operating expenses" on the face of the consolidated profit and loss account.

# Notes to Financial Statements

*31 March 2003*

## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans and overdrafts | **2,552** | 3,482 |

## 8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Fees: | | |
| Executive directors | **—** | — |
| Independent non-executive directors | **631** | 631 |
| | | |
| Other emoluments for executive directors: | | |
| Salaries and allowances | **10,115** | 10,319 |
| Pension scheme contributions | **36** | 36 |
| | **10,782** | 10,986 |

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | **2003** | 2002 |
| Nil to HK$1,000,000 | **3** | 3 |
| HK$1,500,001 to HK$2,000,000 | **1** | 1 |
| HK$4,000,001 to HK$4,500,000 | **2** | 2 |
| | **6** | 6 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

# Notes to Financial Statements

*31 March 2003*

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors, details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Salaries and allowances | **2,889** | 3,021 |
| Pension scheme contributions | **209** | 175 |
| | **3,098** | 3,196 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2003** | 2002 |
| HK$1,000,001 to HK$1,500,000 | **—** | 1 |
| HK$1,500,001 to HK$2,000,000 | **2** | 1 |
| | **2** | 2 |

## 10. TAX

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Group: | | |
| Hong Kong profits tax | **2,246** | 3,092 |
| Under/(over) provision in the prior year | **37** | (138) |
| | **2,283** | 2,954 |
| Share of tax of associates | **924** | 680 |
| Tax charge for the year | **3,207** | 3,634 |

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year.

## 11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company was HK$108,216,000 (2002: HK$3,100,000).

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$41,293,000 (2002: HK$27,700,000) and on the weighted average of 115,739,546 (2002: 15,315,520) ordinary shares in issue during the year, as adjusted to reflect the capital reorganisation during the year.

A diluted earnings per share amount for the year ended 31 March 2003 has not been shown as the share options and warrants outstanding had no dilutive effect on the basic earnings per share during the year.

The calculation of diluted earnings per share for the year ended 31 March 2002 is based on the net profit attributable to shareholders for the year of HK$27,700,000. The weighted average number of ordinary shares used in the calculation is the 15,315,520 ordinary shares in issue during the year as used in the basic earnings per share calculation, and the weighted average of 64,250 ordinary shares (as adjusted to reflect the capital reorganisation during the year ended 31 March 2003) assumed to have been issued at no consideration on the deemed exercise of all share options during the year ended 31 March 2002.

# Notes to Financial Statements

*31 March 2003*

## 13. FIXED ASSETS

### Group

| | Investment properties HK$'000 | Leasehold land and buildings HK$'000 | Leasehold improve-ments HK$'000 | Machineries HK$'000 | Furniture, fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Computer equipment HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| Cost or valuation: | | | | | | | | | |
| At beginning of year | 21,690 | 7,706 | 42,632 | 11,159 | 70,665 | 3,058 | 3,675 | — | 160,585 |
| Additions | 92,646 | — | 4,271 | 276 | 279 | — | 330 | 55,466 | 153,268 |
| Acquisition of subsidiaries *(note 34(c)(d))* | — | — | 10 | 294 | 988 | — | 1 | — | 1,293 |
| Disposals and write-off | — | — | (3,350) | (2,074) | (4,629) | (2,359) | (1,015) | — | (13,427) |
| Disposal of subsidiaries *(note 34(e))* | — | (7,706) | (2,658) | (5,133) | (11,791) | — | (1,824) | — | (29,112) |
| Transfer | 22,907 | — | — | — | — | — | — | (22,907) | — |
| Deficit on revaluation | (8,453) | — | — | — | — | — | — | — | (8,453) |
| **At 31 March 2003** | **128,790** | **—** | **40,905** | **4,522** | **55,512** | **699** | **1,167** | **32,559** | **264,154** |
| Accumulated depreciation: | | | | | | | | | |
| At beginning of year | — | 954 | 20,833 | 7,158 | 54,778 | 2,722 | 2,612 | — | 89,057 |
| Provided during the year | — | 40 | 6,435 | 749 | 7,354 | 100 | 322 | — | 15,000 |
| Acquisition of subsidiaries *(note 34(c)(d))* | — | — | 1 | 32 | 391 | — | — | — | 424 |
| Disposals and write-off | — | — | (2,498) | (1,991) | (4,505) | (2,359) | (1,013) | — | (12,366) |
| Disposal of subsidiaries *(note 34(e))* | — | (994) | (623) | (2,739) | (11,188) | — | (1,052) | — | (16,596) |
| **At 31 March 2003** | **—** | **—** | **24,148** | **3,209** | **46,830** | **463** | **869** | **—** | **75,519** |
| Net book value: | | | | | | | | | |
| **At 31 March 2003** | **128,790** | **—** | **16,757** | **1,313** | **8,682** | **236** | **298** | **32,559** | **188,635** |
| At 31 March 2002 | 21,690 | 6,752 | 21,799 | 4,001 | 15,887 | 336 | 1,063 | — | 71,528 |
| Analysis of cost or valuation: | | | | | | | | | |
| At cost | — | — | 40,905 | 4,522 | 55,512 | 699 | 1,167 | 32,559 | 135,364 |
| At 31 March 2003 valuation | 128,790 | — | — | — | — | — | — | — | 128,790 |
| | 128,790 | — | 40,905 | 4,522 | 55,512 | 699 | 1,167 | 32,559 | 264,154 |

# Notes to Financial Statements

*31 March 2003*

## 13. FIXED ASSETS *(Continued)*

**Company**

| | Furniture, fixtures and office equipment | Computer equipment | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost: | | | |
| At 1 April 2002 and 31 March 2003 | 15 | 66 | 81 |
| Accumulated depreciation: | | | |
| At beginning of year | 5 | 46 | 51 |
| Provided during the year | 2 | 20 | 22 |
| **At 31 March 2003** | **7** | **66** | **73** |
| Net book value: | | | |
| **At 31 March 2003** | **8** | **—** | **8** |
| At 31 March 2002 | 10 | 20 | 30 |

The net book value of the fixed assets of the Group held under finance leases included in the total amount of furniture, fixtures and office equipment at 31 March 2003 amounted to HK$112,800 (2002: HK$170,400).

The Group's investment properties are all situated in Hong Kong and are held under medium term leases.

The Group's investment properties were revalued on 31 March 2003 by Vigers Hong Kong Limited, independent professionally qualified valuers, on an open market, existing use basis. An aggregate amount of revaluation deficit of HK$8,453,000 resulting from the revaluation has been charged to the investment property revaluation reserve for HK$2,243,000 and the profit and loss account for HK$6,210,000, respectively. The investment properties are leased to a director of the Company, third parties and associates under operating leases, further details of which are included in notes 36 and 39 to the financial statements.

At 31 March 2003, the Group's investment properties with an aggregate value of HK$128,790,000 and certain rental income generated therefrom were pledged to secure the Group's general banking facilities, approximately HK$113,034,000 of which had been utilised as at 31 March 2003.

Further particulars of the Group's investment properties are included on page 88.

# Notes to Financial Statements

*31 March 2003*

## 14. INTANGIBLE ASSETS

| | Trademarks and patents |
|---|---|
| | *HK$'000* |
| **Group** | |
| Cost: | |
| At beginning of year | 235 |
| Disposal of subsidiaries *(note 34(e))* | (235) |
| **At 31 March 2003** | **—** |
| Accumulated amortisation: | |
| At beginning of year | 2 |
| Provided during the year | 5 |
| Disposal of subsidiaries *(note 34(e))* | (7) |
| **At 31 March 2003** | **—** |
| Net book value: | |
| **At 31 March 2003** | **—** |
| At 31 March 2002 | 233 |

# Notes to Financial Statements

*31 March 2003*

## 15. GOODWILL

The amounts of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries and associates, are as follows:

**Group**

| | Goodwill arising on acquisition of subsidiaries HK$'000 | Goodwill arising on acquisition of associates (Note 17) HK$'000 |
|---|---|---|
| Cost: | | |
| At beginning of year | 100 | 85,003 |
| Acquisitions during the year *(note 34(c)(d))* | 75,806 | 34,198 |
| Transfer | 68,933 | (68,933) |
| Disposal of interests in an associate | — | (8,483) |
| **At 31 March 2003** | **144,839** | **41,785** |
| Accumulated amortisation and impairment: | | |
| At beginning of year | (25) | (4,482) |
| Amortisation provided during the year | (947) | (16,454) |
| Impairment provided during the year | — | (7,000) |
| Transfer | (8,259) | 8,259 |
| Disposal of interests in an associate | — | 179 |
| **At 31 March 2003** | **(9,231)** | **(19,498)** |
| Net book value: | | |
| **At 31 March 2003** | **135,608** | **22,287** |
| At 31 March 2002 | 75 | 80,521 |

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

## 15. GOODWILL *(Continued)*

The amounts of goodwill and negative goodwill remaining in consolidated reserves as at 1 April 2002, arising from the acquisition of subsidiaries prior to 1 April 2001, were HK$95,933,000 and HK$8,112,000, respectively. Upon disposal of subsidiaries during the year, goodwill of HK$75,104,000 was released from consolidated reserves. The goodwill and negative goodwill remaining in consolidated reserve as at 31 March 2003 were HK$20,829,000 and HK$8,112,000, respectively. The amounts of goodwill and negative goodwill are stated at cost.

The amount of goodwill recorded at cost in consolidated reserves as at 31 March 2002 and 2003, arising from the acquisition of associates prior to 1 April 2001, was HK$926,000.

An impairment loss of approximately HK$7,000,000 was charged to the consolidated profit and loss account for the current year. The impairment loss was provided by the directors based on the estimated recoverable amount of the associate acquired, which was determined based on its value in use. The discount rate used in determining the value in use is 0% per annum.

## 16. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **71,000** | 71,000 |
| Due from subsidiaries — *note (i)* | **712,203** | 487,093 |
| Loans to subsidiaries — *note (ii)* | **81,133** | 77,321 |
| Due to subsidiaries — *note (i)* | **(38,057)** | (49,137) |
| | **826,279** | 586,277 |
| Provisions for impairment | **(419,449)** | (419,449) |
| | **406,830** | 166,828 |

*Notes:*

(i) The amounts are unsecured and have no fixed terms of repayment. Except for a balance of HK$78,750,000 advanced to a subsidiary which bears interest at Hong Kong dollar prime rate plus 2% p.a., the remaining balances are interest-free.

(ii) The amounts are unsecured and have no fixed terms of repayment. Except for a loan to a subsidiary of HK$17,217,000 which bears interest at 6% per annum, the remaining balances are interest-free.

# Notes to Financial Statements

*31 March 2003*

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows:

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Advance Century Limited | Hong Kong | Ordinary HK$2 | — | 100 | Investment holding |
| Biomore Investments Limited | British Virgin Islands/ Hong Kong | Ordinary US$27,800 | — | 100 | Investment holding |
| Bio Chapter Limited | British Virgin Islands/ Hong Kong | Ordinary US$27,799 | — | 100 | Investment holding |
| Charter Golden Design & Contracting Limited | Hong Kong | Ordinary HK$2 | — | 100 | Dormant |
| Century Fortune Hong Kong Limited | Hong Kong | Ordinary HK$2 | — | 100 | Property investment |
| China Coin Management Limited | Hong Kong | Ordinary HK$1,000 | — | 100 | Property investment |
| China Ocean Investments Limited *(Note 5)* | Hong Kong | Ordinary HK$501 "A" shares and HK$499 "B" shares *(Note 4)* | — | 50.1 | Management of pork stalls and butcher shops |

# Notes to Financial Statements

*31 March 2003*

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows: *(continued)*

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Conway Consultants Limited | Hong Kong | Ordinary HK$1,400,000 Non-voting preference *(Note 2)* HK$600,000 | — | 70 | Provision of medical consultation services |
| Denox Management Limited | Hong Kong | Ordinary HK$2 | — | 100 | Management and sub-letting of properties |
| Diamond Throne Limited | British Virgin Islands/ Hong Kong | Ordinary US$1 | — | 100 | Investment holding |
| Fenny Planning & Project Management Limited | Hong Kong | Ordinary HK$100 | — | 100 | Promotion of Chinese wet markets |
| Fulling Limited | Hong Kong | Ordinary HK$100 | — | 100 | Money lending |
| Geswin Limited | Hong Kong | Ordinary HK$2 | — | 100 | Investment holding |
| Goodtech Management Limited | Hong Kong | Ordinary HK$1,100,100 | — | 100 | Management of shopping centres |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows: *(continued)*

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Principal activities |
|---|---|---|---|---|---|
| Grand Quality Development Limited | Hong Kong | Ordinary HK$2 | — | 100 | Property investment |
| Greatest Wealth Limited | Hong Kong | Ordinary HK$100 | — | 100 | Management of pork stalls and butcher shops |
| Join China Investment Limited | Hong Kong | Ordinary HK$2 | — | 100 | Investment holding |
| Lead Fortune Limited | Hong Kong | Ordinary HK$1,000 | — | 100 | Property investment |
| Lica Parking Company Limited | Hong Kong | Ordinary HK$25,500,000 | — | 99.02 | Management and sub-licensing of car parks |
| Luxembourg Medicine Company Limited *(Notes 5 and 6)* | Hong Kong | Ordinary HK$434,747 | — | 99.79 | Manufacture and sale of cough syrup |
| Macro Pacific Investment Limited | Hong Kong | Ordinary HK$2 | — | 100 | Investment holding |

# Notes to Financial Statements

*31 March 2003*

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows: *(continued)*

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Principal activities |
|---|---|---|---|---|---|
| Majorluck Limited | Hong Kong | Ordinary HK$10,000 | — | 100 | Management and sub-licensing of Chinese wet markets |
| Parking Lot Management Limited | Hong Kong | Ordinary HK$700,002 | — | 100 | Management and sub-licensing of car parks |
| Rich Time Strategy Limited | British Virgin Islands/ Hong Kong | Ordinary US$1 | — | 100 | Investment holding |
| Royal Focus Limited | Hong Kong | Ordinary HK$2 | — | 100 | Investment holding |
| WOB Investments Limited (previously Wang On Builders Limited) | Hong Kong | Ordinary HK$2 | — | 100 | Dormant |
| Wang On Commercial Management Limited | British Virgin Islands/ Hong Kong | Ordinary US$2 | — | 100 | Investment holding |

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows: *(continued)*

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Principal activities |
|---|---|---|---|---|---|
| WOD Investments Limited (previously Wang On Design & Contracting Limited) | Hong Kong | Ordinary HK$1,000,000 | — | 100 | Property investment |
| WEH Investments Limited (previously Wang On Engineering Holdings Limited) | Hong Kong | Ordinary HK$477 Non-voting deferred *(Note 3)* HK$1,262,523 | — | 100 | Provision of decoration and project management services |
| Wang On Enterprises (BVI) Limited | British Virgin Islands/ Hong Kong | Ordinary US$1 | 100 | — | Investment holding |
| Wang On Majorluck Limited | Hong Kong | Ordinary HK$1,000 | — | 100 | Management and sub-licensing of Chinese wet markets |
| Wang On Shopping Centre Management Limited | Hong Kong | Ordinary HK$2 | — | 100 | Management and sub-licensing of shopping centres |

# Notes to Financial Statements

*31 March 2003*

## 16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at the balance sheet date are as follows: *(continued)*

| Name | Place of incorporation/ operations | Nominal value of issued ordinary share capital | Percentage of equity attributable to the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Willing Dental Consultants Limited | Hong Kong | Ordinary HK$100 | — | 100 | Provision of dental consultation services |

*Notes:*

(1) The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(2) The non-voting preference shares carry no voting rights but the holders have the right to receive an annual cash dividend equivalent to 30% of the audited net profit after tax. On the winding-up of the company, the holders rank in priority to the ordinary shareholders provided that the assets of the company available for distribution to its members shall be applied first towards arrears or accruals of the dividend.

(3) The non-voting deferred shares carry no voting rights or rights to dividends. On the winding-up of the companies, the holders of non-voting deferred shares have a right to repayment in proportion to the amounts of all paid-up ordinary and deferred shares after the first HK$1,000,000,000,000 thereof has been distributed among the holders of the ordinary shares.

(4) Each "A" share and "B" share rank pari passu as regards to voting rights and all other aspects except that the holders of "A" shares shall be entitled to receive one-third of the profits distributed by ways of dividend and one-third of the capital and surplus assets upon winding-up of the company while the holders of "B" shares shall be entitled to receive two-third of the profits distributed by ways of dividend and two-third of the capital and surplus assets upon winding-up of the company.

(5) The financial statements of the company are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

(6) Luxembourg Medicine Company Limited was a 47.53%-owned associate of the Group as at 31 March 2002. On 25 March 2003, the Group acquired a further 52.26% equity interest as set out in note 34(d) to the financial statements.

# Notes to Financial Statements

*31 March 2003*

## 17. INTERESTS IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Share of net assets | **32,259** | 9,237 | **—** | — |
| Deferred gain | **(16,058)** | — | **—** | — |
| Goodwill on acquisition — *note 15* | **22,287** | 80,521 | **—** | — |
| | **38,488** | 89,758 | **—** | — |
| Due from associates — *note (i)* | **7,874** | 1,221 | **219** | 522 |
| Loans to associates — *note (ii)* | **80,495** | 66,150 | **—** | — |
| Convertible notes due from an associate — *note (iii)* | **64,000** | — | **—** | — |
| | **190,857** | 157,129 | **219** | 522 |
| Provisions for impairment | **(3,403)** | (3) | **—** | — |
| | **187,454** | 157,126 | **219** | 522 |

*Notes:*

(i) The amounts due from associates are unsecured and interest-free. Except for the amounts of HK$588,000 and HK$3,335,000 which are repayable by August 2003 and July 2005, respectively, the remaining balance has no fixed terms of repayment.

(ii) An amount of HK$44,000 loan to an associate is unsecured, interest-free and has no fixed terms of repayment. An amount of HK$1,701,000 loan to an associate is unsecured, bears interest at 4% per annum and is repayable in January 2005. The remaining loans of HK$78,750,000 to associates are unsecured and bear interest at the Hong Kong dollar prime rate plus 2% per annum, HK$7,000,000 of which is repayable before August 2003, an aggregate amount of HK$64,850,000 is repayable in July 2005 and the remaining balance of HK$6,900,000 has no fixed terms of repayment.

(iii) The convertible notes carry interest at 3.8% per annum with a right to convert into ordinary shares of Wai Yuen Tong Medicine Holdings Limited (formerly known as Dailywin Group Limited) at an initial conversion price of HK$0.01 per share during the period from 9 July 2002 to 8 July 2005.

# Notes to Financial Statements

*31 March 2003*

## 17. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the principal associates at the balance sheet date are as follows:

| Name | Business structure | Place of incorporation/ operations | Percentage of ownership interest attributable to the Group 2003 % | 2002 % | Principal activities |
|---|---|---|---|---|---|
| Wai Yuen Tong Medicine Holdings Limited* *(Note 2)* | Corporate | Bermuda/ Hong Kong | **30.87** | 29.19 | Manufacture and trading of Chinese pharmaceutical products, watches and components |
| China Field Enterprises Limited | Corporate | Hong Kong | **49** | 22 | Investment holding |
| Tse's Waxing & Cleaning Company Limited | Corporate | Hong Kong | **50** | 50 | Provision of cleaning services |

*Notes:*

(1) The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

(2) The financial statements of the company are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* Listed on The Stock Exchange of Hong Kong Limited.

## 17. INTERESTS IN ASSOCIATES *(Continued)*

Extracts of the financial information of the Group's material associate are as follows:

| | **Wai Yuen Tong Medicine Holdings Limited Year ended 31 March 2003** *HK$'000* |
|---|---|
| **Profit and loss account** | |
| Turnover | **259,824** |
| Loss for the year | **(28,946)** |
| **Balance sheet** | |
| Non-current assets | **216,510** |
| Current assets | **103,175** |
| Current liabilities | **(99,736)** |
| Non-current liabilities | **(133,821)** |
| Minority interests | **(94)** |
| Net assets | **86,034** |

## 18. INVESTMENTS

### (a) Long term investments

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Held-to-maturity securities: | | | | |
| Hong Kong listed dated debt securities, at amortised cost | **11,700** | — | **11,700** | — |
| Investment securities: | | | | |
| Hong Kong unlisted unit trusts, at cost | **3,000** | 1,000 | **—** | — |
| Hong Kong unlisted equity shares, at cost | **13,158** | 12,521 | **—** | — |
| *Less:* Provisions for impairment | **(13,158)** | (12,521) | **—** | — |
| | **14,700** | 1,000 | **11,700** | — |

### (b) Short term investments

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Investment securities: | | |
| Hong Kong unlisted unit trusts, at cost | **—** | 5,000 |
| Other investments: | | |
| Hong Kong listed equity securities, at fair value | **3,344** | 3,914 |
| | **3,344** | 8,914 |

## 19. PROPERTIES HELD FOR RE-SALE

The properties held for re-sale were disposed of during the year.

# Notes to Financial Statements

*31 March 2003*

## 20. INVENTORIES

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **944** | 4,524 |
| Packing materials | **987** | 3,280 |
| Finished goods | **632** | 3,848 |
| | **2,563** | 11,652 |

None of the inventories included in the above was carried at net realisable value as at the balance sheet date (2002: Nil).

## 21. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, is as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2003** | | 2002 | |
| | ***HK$'000*** | **Percentage** | *HK$'000* | Percentage |
| Within 90 days | **7,546** | **89** | 26,792 | 96 |
| 91 days to 180 days | **720** | **8** | 440 | 2 |
| Over 180 days | **251** | **3** | 552 | 2 |
| | **8,517** | **100** | 27,784 | 100 |
| *Less*: Provision for doubtful debts | **(214)** | | (267) | |
| | **8,303** | | 27,517 | |

The Group's businesses generally do not grant any credit to customers, except for the Group's pharmaceutical business which provides credit terms of 30 to 180 days.

# Notes to Financial Statements

*31 March 2003*

## 22. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Prepayments | **2,939** | 8,889 | **509** | 459 |
| Deposits | **6,176** | 5,814 | **—** | 11 |
| Other receivables | **3,019** | 6,499 | **78** | — |
| | **12,134** | 21,202 | **587** | 470 |

## 23. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **40,947** | 27,625 | **22,261** | 9,267 |
| Time deposits | **173,244** | 286,181 | **153,223** | 272,511 |
| | **214,191** | 313,806 | **175,484** | 281,778 |

## 24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **1,140** | 6,669 |
| 91 days to 180 days | **—** | 15 |
| Over 180 days | **460** | 3,831 |
| | **1,600** | 10,515 |

# Notes to Financial Statements

*31 March 2003*

## 25. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Other payables | **7,508** | 11,584 | **110** | 168 |
| Accruals | **9,211** | 15,060 | **266** | 1,567 |
| | **16,719** | 26,644 | **376** | 1,735 |

## 26. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | | Group | |
|---|---|---|---|
| | | **2003** | 2002 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Current portion of bank loans and overdrafts | *28* | **25,124** | 21,208 |
| Current portion of finance lease payables | *29* | **58** | 58 |
| | | **25,182** | 21,266 |

## 27. PROVISIONS FOR ONEROUS CONTRACTS

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| At beginning of year | **27,017** | 32,706 |
| Additional provision/(write back of provision) | **(313)** | 2,884 |
| Amount utilised during the year | **(6,565)** | (8,573) |
| At 31 March | **20,139** | 27,017 |
| Portion classified as current liabilities | **(7,709)** | (10,695) |
| Long term portion | **12,430** | 16,322 |

# Notes to Financial Statements

*31 March 2003*

## 28. INTEREST-BEARING BANK LOANS

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Bank loans: | | |
| Secured — *Note* | **60,193** | 15,160 |
| Unsecured | **15,767** | 30,745 |
| | **75,960** | 45,905 |
| Bank loans repayable: | | |
| Within one year | **25,124** | 21,208 |
| In the second year | **11,355** | 18,835 |
| In the third to fifth years, inclusive | **29,061** | 4,927 |
| Beyond five years | **10,420** | 935 |
| | **75,960** | 45,905 |
| Portion classified as current liabilities *(Note 26)* | **(25,124)** | (21,208) |
| Long term portion | **50,836** | 24,697 |

*Note:* Certain of the Group's bank loans are secured by the Group's investment properties (note 13).

## 29. FINANCE LEASE PAYABLES

The Group leases certain of its office equipment. These leases are classified as finance leases and have remaining lease terms of two years.

At 31 March 2003, the total future minimum lease payments under finance leases and their present values were as follows:

**Group**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts payable: | | | | |
| Within one year | **58** | 58 | **58** | 58 |
| In the second year | **52** | 58 | **52** | 58 |
| In the third to fifth years, inclusive | **—** | 52 | **—** | 52 |
| Total minimum finance lease payments | **110** | 168 | **110** | 168 |
| Future finance charges | **—** | — | | |
| Total net finance lease payables | **110** | 168 | | |
| Portion classified as current liabilities *(Note 26)* | **(58)** | (58) | | |
| Long term portion | **52** | 110 | | |

# Notes to Financial Statements

*31 March 2003*

## 30. DEFERRED TAX

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of year | **983** | 983 |
| Disposal of subsidiaries *(note 34(e))* | **(218)** | — |
| At 31 March | **765** | 983 |

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

## 31. SHARE CAPITAL

**Shares**

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Authorised*: | | |
| 2,000,000,000 (2002: 20,000,000,000) ordinary shares of HK$0.10 (2002: HK$0.01) each | **200,000** | 200,000 |
| *Issued and fully paid*: | | |
| 118,143,655 (2002: 9,864,365,596) ordinary shares of HK$0.10 (2002: HK$0.01) each | **11,815** | 98,644 |

## 31. SHARE CAPITAL *(Continued)*

**Shares** *(Continued)*

During the year, the movements in the share capital were as follows:

(a) On 15 May 2002, a top-up placement of 1,950,000,000 ordinary shares of HK$0.01 each was made at an issue price of HK$0.02 each. The net proceeds were used for the purchases of investment properties and general working capital.

(b) Pursuant to a capital reorganisation (the "Capital Reorganisation") effective on 4 October 2002, the Company:

  (i) consolidated every 100 issued and unissued ordinary shares of HK$0.01 each into 1 ordinary share of HK$1.00 each;

  (ii) reduced the par value of the issued ordinary shares from HK$1.00 each to HK$0.10 each;

  (iii) split the unissued ordinary shares of HK$1.00 each into 10 ordinary shares of HK$0.10 each; and

  (iv) transferred a credit of HK$106,329,000 arisen from the reduction of the par value of the issued ordinary shares as stated in (ii) above to the contributed surplus account of the Company.

# Notes to Financial Statements

*31 March 2003*

## 31. SHARE CAPITAL *(Continued)*

**Shares** *(Continued)*

A summary of the movements of the Company's issued ordinary share capital during the year is as follows:

| | Number of shares in issue | Issued share capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2001 | 822,060,933 | 8,221 | 257,272 | 265,493 |
| Transfer from accumulated losses | — | — | (129,270) | (129,270) |
| Conversion of convertible bonds | 160,000,000 | 1,600 | 28,480 | 30,080 |
| Placement | 662,000,000 | 6,620 | 51,360 | 57,980 |
| Rights issue | 6,576,243,732 | 65,762 | 131,525 | 197,287 |
| Bonus issue | 1,644,060,931 | 16,441 | — | 16,441 |
| Share issue expenses | — | — | (8,253) | (8,253) |
| At 31 March and 1 April 2002 | 9,864,365,596 | 98,644 | 331,114 | 429,758 |
| Placement *(a)* | 1,950,000,000 | 19,500 | 19,500 | 39,000 |
| Capital Reorganisation *(b)* | (11,696,221,941) | (106,329) | — | (106,329) |
| Share issue expenses | — | — | (2,392) | (2,392) |
| **At 31 March 2003** | **118,143,655** | **11,815** | **348,222** | **360,037** |

**Share options**

Details of the Company's share option schemes are set out in note 32 to the financial statements.

**Warrants**

On 3 July 2002, 2,000,000,000 warrants were issued at HK$0.001 each for a total proceed, before expenses, of HK$2,000,000. The warrant-holders are entitled to subscribe for one ordinary share of the Company of HK$0.01 each at a subscription price of HK$0.017 per share (subject to adjustment) at any time during the period from the date of issue to 31 July 2003. As a result of the Capital Reoganisation disclosed in note 31(b) above, the number of warrants was reduced from 2,000,000,000 to 20,000,000. The subscription price was increased from HK$0.017 each to HK$1.7 each. No warrant was exercised during the year. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 20,000,000 additional shares of HK$0.10 each of the Company and share premium of HK$32,000,000 (before issue expenses).

## 32. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company's share option schemes are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 6 February 1995, the Company approved a share option scheme (the "Old Scheme") under which the directors of the Company may, at their discretion, invite any executive directors or full-time employees of the Group to take up share options to subscribe for shares of the Company at any time during the 10 years from the date of approval. The Old Scheme became effective upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 28 February 1995.

In compliance with the amended Chapter 17 of the Listing Rules, the Old Scheme was terminated on 3 May 2002 and a new share option scheme (the "New Scheme") was adopted pursuant to an ordinary resolution passed at a special general meeting of the Company on 3 May 2002. As a result, the Company will no longer grant any further share options under the Old Scheme. However, all share options granted prior to the termination of the Old Scheme will remain in full force and effect. As at 31 March 2003, there were 2,628,000 (adjusted for the Capital Reorganisation) share options granted under the Old Scheme which remained outstanding as at the same date.

Under the New Scheme, eligible participants include any director or proposed director (whether executive or non-executive, including independent non-executive director), employee or proposed employee (whether full-time or part-time), secondee, any holder of securities issued by any member of the Group, any business or joint venture partner, contractor, agent or representative, any person or entity that provides research, development or other technology support or advisory, consultancy, professional or other services to the Group, any supplier, producer or licensor of goods or services to the Group, any customer, licencee (including any sub-licencee) or distributor of goods or services of the Group, or any landlord or tenant (including any sub-tenant) of the Group or any substantial shareholder or company controlled by a substantial shareholder, or any company controlled by one or more persons belonging to any of the above classes of participants. The New Scheme became effective on 3 May 2002 and, unless otherwise terminated earlier by shareholders in a general meeting, will remain in force for a period of 10 years from that date. No share options have been granted under the New Scheme since the date of its adoption.

## 32. SHARE OPTION SCHEMES *(Continued)*

Pursuant to the New Scheme, the maximum number of share options may be granted under the New Scheme and any other share option schemes of the Company is an amount equivalent, upon their exercise, not in aggregate exceed 10% of the issued share capital of the Company from time to time, excluding any shares issued on the exercise of share options. As at 31 March 2003, the number of shares issuable under the share options granted under the Old Scheme was 2,628,000, which represented approximately 2.2% of the Company's shares in issue as at that date.

The maximum number of shares issuable under share options to each eligible participant (except for a substantive shareholder or an independent non-executive director or any of their respective associates) under the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of such limit must be separately approved by shareholders with such eligible participant and his associates abstaining from voting.

Share options granted to a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the option). Where any grant of share options to a substantial shareholder or an independent non-executive director (or any of their respective associates) will result in the total number of shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the New Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant representing in aggregate over 0.1% of the shares in issue, and having an aggregate value, based on the closing price of the Company's shares at each date of grant, in excess of HK$5 million, such further grant of share options is required to be approved by shareholders in a general meeting in accordance with the Listing Rules. Any change in the terms of a share option granted to a substantial shareholder or an independent non-executive director (or any of their respective associates) is also required to be approved by shareholders.

An offer for the grant of share options must be accepted within 30 days from the date on which such offer was made. The amount payable by the grantee of a share option to the Company on acceptance of the offer of the grant is HK$1.00.

## 32. SHARE OPTION SCHEMES *(Continued)*

The option price per share payable on the exercise of an option is determined by the directors provided that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange at the date of offer of grant (which is deemed to be the date of grant if the offer for the grant of a share option is accepted by the eligible person), which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant, provided that the option price per share shall in no event be less than the nominal amount of one share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Old Scheme during the year:

| | Number of share options | | | | | Exercise |
|---|---|---|---|---|---|---|
| Name or category of participant | At 1 April 2002 | Adjustment during the year* | At 31 March 2003 | Date of grant of share options | Exercise period of share options | price of share options* HK$ |
| **Directors** | | | | | | |
| Tang Ching Ho | 65,400,000 | (64,746,000) | 654,000 | 6-3-2001 | 6-3-2001 to 5-2-2005 | 2.17 |
| Yau Yuk Yin | 65,400,000 | (64,746,000) | 654,000 | 6-3-2001 | 6-3-2001 to 5-2-2005 | 2.17 |
| **Other employees** | | | | | | |
| In aggregate | 132,000,000 | (130,680,000) | 1,320,000 | 6-3-2001 | 6-3-2001 to 5-2-2005 | 2.17 |
| | 262,800,000 | (260,172,000) | 2,628,000 | | | |

* The number and exercise price of share options granted had been adjusted for the effect of the Capital Reorganisation.

At the balance sheet date, the Company had 2,628,000 share options outstanding under the Old Scheme. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 2,628,000 additional ordinary shares of the Company and additional share capital of HK$262,800 and share premium of HK$5,440,000 (before issue expenses).

# Notes to Financial Statements

*31 March 2003*

## 33. RESERVES

**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 24 and 25 of the financial statements.

Certain amounts of goodwill and negative goodwill arising on the acquisition of subsidiaries and associates in prior years remain eliminated against consolidated retained profits and credited to the capital reserve, respectively, as explained in note 15 to the financial statements.

**(b) Company**

| | Share premium account | Contributed surplus *(Note ii)* | Warrant reserve | Retained profits/ (accumulated losses) | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2001 | 257,272 | 31,476 | — | (129,270) | 159,478 |
| Transfer *(Note (i))* | (129,270) | — | — | 129,270 | — |
| Conversion of convertible bonds | 28,480 | — | — | — | 28,480 |
| Placement of shares | 51,360 | — | — | — | 51,360 |
| Rights issue | 131,525 | — | — | — | 131,525 |
| Bonus issue | — | (16,441) | — | — | (16,441) |
| Share issue expenses | (8,253) | — | — | — | (8,253) |
| Profit for the year | — | — | — | 3,100 | 3,100 |
| At 31 March and 1 April 2002 | 331,114 | 15,035 | — | 3,100 | 349,249 |
| Capital Reorganisation | — | 106,329 | — | — | 106,329 |
| Placement of shares | 19,500 | — | — | — | 19,500 |
| Warrant issue | — | — | 2,000 | — | 2,000 |
| Warrant issue expenses | — | — | (265) | — | (265) |
| Share issue expenses | (2,392) | — | — | — | (2,392) |
| Profit for the year | — | — | — | 108,216 | 108,216 |
| **At 31 March 2003** | **348,222** | **121,364** | **1,735** | **111,316** | **582,637** |

## 33. RESERVES *(Continued)*

### (b) Company *(Continued)*

*Notes:*

(i) Pursuant to a special resolution passed on 9 November 2001, the Company's share premium account was reduced by an amount of HK$129,270,000, which was applied to offset the accumulated losses of the Company.

(ii) The contributed surplus of the Company originally derived from the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to the Group reorganisation on 6 February 1995 and the par value of the Company's shares issued in exchange therefor. The movements during the year ended 31 March 2003 represent the difference between the nominal value of the share capital before and after the Group's Capital Reorganisation. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Changes to the layout of the consolidated cash flow statement

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities and interest and dividends paid are now included in cash flows from financing activities. The presentation of the comparative consolidated cash flow statement for the year ended 31 March 2002 has been changed to accord with the new layout.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. This change has had no material effect on the consolidated cash flow statement for the year ended 31 March 2002.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

**(b) Major non-cash transactions**

During the year, the Group entered into a sale and purchase agreement to dispose of its entire interests in certain subsidiaries of the Group to an associate at a consideration of HK$167 million. The consideration was satisfied by issuing 10,309 million ordinary shares of the associate at HK$0.01 per share and convertible notes due from the associate of approximately HK$64 million. Further details are set out in note (e) below.

During the year, the Group entered into sale and purchase agreements to acquire a further 52.26% equity interest of an associate from third parties at an aggregate consideration of HK$73 million. The associate became a 99.79% subsidiary of the Group at the balance sheet date. The consideration was partly satisfied by transferring 2,173,387,061 shares of another associate of the Group at HK$0.033 per share. Further details are set out in note (d) below.

**(c) Acquisition of a subsidiary**

| | Notes | **2003** | 2002 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Net assets acquired: | | | |
| Fixed assets | *13* | **495** | — |
| Inventories | | **23** | — |
| Trade receivables, prepayments, deposits and other debtors | | **2,075** | — |
| Cash and cash equivalents | | **997** | 700 |
| Trade payables, other payables and accruals | | **(2,201)** | — |
| Tax payable | | **(124)** | — |
| | | **1,265** | 700 |
| Goodwill on acquisition | *15* | **4,805** | 100 |
| | | **6,070** | 800 |
| Satisfied by: | | | |
| Cash | | **6,070** | 800 |

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

**(c) Acquisition of a subsidiary** *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follow:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash consideration | **6,070** | 800 |
| Cash and cash equivalents acquired | **(997)** | (700) |
| Net outflow of cash and cash equivalents in respect of acquisition of a subsidiary | **5,073** | 100 |

The subsidiaries acquired during the years ended 31 March 2002 and 2003 had no significant impact on the Group's consolidated turnover and profit after tax for those years.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

**(d) Acquisition of additional shares in an associate which became a subsidiary as a result thereof**

| | Notes | 2003<br>HK$'000 | 2002<br>HK$'000 |
|---|---|---|---|
| Net assets acquired: | | | |
| Fixed assets | 13 | 374 | — |
| Inventories | | 2,496 | — |
| Trade receivables, prepayments, deposits and other debtors | | 2,865 | — |
| Cash and cash equivalents | | 2,185 | — |
| Trade payables, other payables and accruals | | (3,660) | — |
| Interest-bearing bank borrowings | | (1,600) | — |
| Tax payable | | (54) | — |
| | | 2,606 | — |
| Goodwill on acquisition | 15 | 71,001 | — |
| | | 73,607 | — |
| Satisfied by: | | | |
| Cash | | 1,885 | — |
| Disposal of interests in an associate | | 71,722 | — |
| | | 73,607 | — |

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

**(d) Acquisition of additional shares in an associate which became a subsidiary as a result thereof** *(continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of additional shares in an associate which became a subsidiary as a result thereof is as follow:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash consideration | **(1,480)** | — |
| Expenses incurred | **(405)** | — |
| Cash and cash equivalents acquired | **2,185** | — |
| Net inflow of cash and cash equivalents in respect of acquisition of additional shares in a subsidiary | **300** | — |

On 25 March 2003, the Group acquired a further 52.26% interest in Luxembourg Medicine Company Limited ("Luxembourg"), a 47.53%-owned associate of the Group as at 31 March 2002.

The purchase consideration for the acquisition was partly satisfied by cash of HK$1,480,000 cash and the remaining balance of HK$71,722,000 by the transfer of 2,173,387,061 shares of Wai Yuen Tong Medicine Holdings Limited, an associate of the Group.

Luxembourg had no significant impact on the Group's consolidated turnover and profit after tax for the year after it was reclassified as a subsidiary of the Group.

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (e) Disposal of subsidiaries

| | Notes | 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|---|
| Net assets disposed of: | | | |
| Fixed assets | 13 | 12,516 | — |
| Intangible assets | 14 | 228 | — |
| Interests in associates | | 5,593 | — |
| Inventories | | 11,779 | — |
| Trade receivables | | 14,619 | — |
| Deposits and other debtors | | 5,424 | — |
| Cash and cash equivalents | | 3,553 | — |
| Trade and other payables | | (16,856) | — |
| Tax payable | | (2,159) | — |
| Deferred income | | (722) | — |
| Deferred tax | 30 | (218) | — |
| Minority interests | | (8,660) | — |
| | | 25,097 | — |
| Goodwill released on disposal | | 75,104 | — |
| Gain on disposal of subsidiaries | | 17,031 | — |
| Deferred gain on disposal of subsidiaries | | 45,183 | — |
| | | 162,415 | — |
| Satisfied by: | | | |
| Interests in an associate | | 103,089 | — |
| Convertible notes of an associate | 17 | 64,000 | — |
| Expenses incurred | | (4,674) | — |
| | | 162,415 | — |

## 34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

**(e) Disposal of subsidiaries** *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries as a result thereof is as follow:

| | **2003** | 2002 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Expenses incurred | **(4,674)** | — |
| Cash and cash equivalents disposed of | **(3,553)** | — |
| Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries | **(8,227)** | — |

On 22 May 2002, the Group disposed of its entire interests in Wai Yuen Tong Medicine Company Limited, a 75.79% indirectly-owned subsidiary of the Company and its subsidiaries (collectively referred to as the "WYTM"), to Wai Yuen Tong Medicine Holdings Limited ("WYTH") for an aggregate consideration of HK$167,089,000. The consideration was satisfied by issuing 10,309 million ordinary shares of WYTH at HK$0.01 per share and convertible notes due from WYTH of HK$64 million. The convertible notes are interest-bearing at 3.8% per annum, payable semi-annually in arrears, with the maturity date falling on the last day of a period of three years from the issue date.

The subsidiaries disposed of during the year ended 31 March 2003 contributed HK$25,972,000 to the Group's turnover and HK$4,977,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2003.

# Notes to Financial Statements

*31 March 2003*

## 35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(a)

| | Group | | Company | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Guarantees in respect of performance bonds given to third parties | **15,222** | 20,230 | **—** | — |
| Guarantees given in lieu of utility and property rental deposits | **17,567** | 7,621 | **—** | — |
| Bills discounted with recourse | **1,628** | — | **—** | — |
| Guarantees given to financial institutions in connection with facilities granted to subsidiaries | **—** | — | **194,555** | 144,343 |
| | **34,417** | 27,851 | **194,555** | 144,343 |

(b) A corporate guarantee in the amount of approximately HK$464,000 (2002: HK$464,000) was given by the Company to a landlord in respect of the full rental payments of the office premises during the tenancy period.

(c) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK$1,534,000 as at 31 March 2003, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

## 36. OPERATING LEASE ARRANGEMENTS

**(a) As lessor**

The Group leases its investment properties (note 13 to the financial statements) and sub-leases Chinese wet markets, shopping centres and car parks under operating lease arrangements, with leases negotiated for terms ranging from three months to six years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | **Group** | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **108,730** | 86,018 |
| In the second to fifth years, inclusive | **57,853** | 67,407 |
| | **166,583** | 153,425 |

**(b) As lessee**

The Group leases Chinese wet markets, shopping centres, car parks and certain of its office properties under operating lease arrangements. Leases are negotiated for terms ranging from three months to nine years.

At 31 March 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **Group** | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **130,353** | 113,603 |
| In the second to fifth years, inclusive | **288,040** | 194,425 |
| After five years | **7,321** | 7,579 |
| | **425,714** | 315,607 |

# Notes to Financial Statements

*31 March 2003*

## 37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36(b) above, the Group had the following commitments at the balance sheet date:

| | Group | |
|---|---|---|
| | **2003** | 2002 |
| | ***HK$'000*** | *HK$'000* |
| Capital commitments contracted, but not provided for | **7,460** | 39,891 |

At the balance sheet date, the Company had no significant commitments.

## 38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into sale and purchase agreements with independent third parties to dispose of certain of its investment properties situated in Hong Kong for an aggregate cash consideration of HK$1,940,000. The transactions were completed on 17 April and 7 May 2003 and did not result in any gain or loss on disposals.

## 39. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

| | | **2003** | 2002 |
|---|---|---|---|
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Rental income received from Mr. Tang Ching Ho | *(a)* | **686** | 978 |
| Proceeds from disposal of subsidiaries to an associate | *(b)* | **167,089** | — |
| Income from associates: | *(c)* | | |
| — Management fee | | **960** | 560 |
| — Rental | | **679** | 96 |
| — Interest income | | **6,900** | 1,955 |
| Cleaning expenses paid to an associate | *(c)* | **6,084** | 5,896 |
| Non-refundable initial franchise fee received from a related party | *(c)* | **—** | 450 |
| Sales to a related party | *(c)* | **247** | 4,694 |

# Notes to Financial Statements

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## 39. RELATED PARTY TRANSACTIONS *(Continued)*

*Notes:*

(a) An investment property of the Group was leased to Mr. Tang Ching Ho for a period of one year from 20 December 2001 at an agreed monthly rental of HK$60,000. The lease was renewed and extended for a further one year at an agreed monthly rental of HK$50,000. The rentals were determined with reference to the prevailing market rates.

(b) The entire interests of WYTM were disposed of to WYTH at a consideration of HK$167 million. The consideration was based on terms mutually agreed between the Group and the associate.

The Company agreed to severally warrant, guarantee and undertake to WYTH that the audited consolidated net profit after tax of WYTM for the year ended 31 March 2003 shall not be less than HK$18 million. In the event that the profit is less than the guaranteed profit, the Company will pay to WYTH a prescribed cash sum. The audited consolidated net profit after tax of WYTM for the year ended 31 March 2003 was HK$18,101,000.

(c) The transactions were based on terms mutually agreed between the Group and the related parties.

## 40. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

Due to the changes of a reportable segment identified during the year, the presentation of certain comparative amounts in the segment information note have been revised to comply with the SSAP requirement.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 May 2003.